

## Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00

COME-00 DODE-00 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04

ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00 OMB-01

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FM AMEMBASSY LISBON

TO SECSTATE WASHDC PRIORITY 8844

INFO AMEMBASSY BONN

USMISSION ED BRUSSELS

US DEL MTN GENEVA 0684

AMEMBASSY LONDON

AMEMBASSY MADRID

AMCONSUL OPORTO

AMEMBASSY PARIS

USMISSION OECD PARIS

AMCONSUL PONTA DELGADA

AMEMBASSY ROME

USMISSION NATO

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E.O. 11652: N/A

TAGS: ETRD, PO

SUBJECT: GOP IMPOSES ADDITIONAL MEASURES TO REDUCE IMPORTS

REF: LISBON 6997

1. TOTAL OF PORTUGUESE IMPORTS SUBJECT TO SURCHARGE REMAINS  
AT APPROXIMATELY 31 PERCENT, BUT NEW IMPORT RESTRICTIONS INCREASED  
CONSIDERABLY DEGREE OF PROTECTION. PREVIOUSLY, 30 PERCENT  
SURCHARGE APPLIED TO ONLY 8 PERCENT OF IMPORTS AND 20 PERCENT  
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SURCHARGE APPLIED TO 23 PERCENT OF IMPORTS. NOW, 30

PERCENT SURCHARGE WILL AFFECT ABOUT 27 PERCENT OF IMPORTS AND 60 PERCENT SURCHARGE WILL AFFECT SOME 5 PERCENT OF TOTAL IMPORTS. AMONG U.S. EXPORTS TO BE MOST AFFECTED BY THESE MEASURES ARE: HOOVER VACUUM CLEANERS AND WASHING MACHINES; KODAK CAMERAS; MOTION PICTURES; SEWING MACHINES; RECORDS AND TAPES.

2. GOVERNMENT ECONOMISTS HAVE GROWN INCREASINGLY CONCERNED BY PERSISTENTLY LARGE EXTERNAL DEFICIT AND CONSEQUENT LOSS OF EXTERNAL LIQUIDITY. FEARS THAT LIQUID RESERVES, IF NOT PROMPTLY RENEWED, MAY BE EXHAUSTED BY END OF NOVEMBER HAVE ACCELERATED IMPLEMENTATION OF THESE TRADE RESTRICTIONS.

3. GOP EVIDENTLY WOULD HAVE PREFERRED TO INTRODUCE AUSTERITY MEASURES GRADUALLY, POSTPONING MOST OF THEM UNTIL LATER NOVEMBER OR EARLY DECEMBER. EFFECTS ON CONSUMPTION WOULD THUS HAVE BEEN DELAYED UNTIL AFTER THE FORTHCOMING LOCAL ELECTIONS. GOP'S DECISION TO ADVANCE THIS TIME SCHEDULE MEANS THAT THE HIGHER DOMESTIC PRICES AND SPOT SHORTAGES CAUSED BY SURCHARGE/PRIOR DEPOSITS WILL BE FELT PRIOR TO THE ELECTIONS. IT HAS NOT YET DECIDED WHETHER IT WILL IMPOSE QUANTITATIVE IMPORT RESTRICTIONS.

4. THE NEED FOR EVEN MORE EFFECTIVE REFORMS IS UNDENIABLE. THESE LATEST MEASURES ARE LARGELY AN ATTEMPT TO DRAMATIZE PORTUGAL'S PRECARIOUS EXTERNAL SITUATION. THEY WILL, FOR SEVERAL REASONS, HAVE ONLY A VERY LIMITED IMPACT: THE ECONOMY IS HIGHLY LIQUID; THE GOP HAD PREVIOUSLY ACQUIRED VIRTUAL CONTROL OVER AGRICULTURE IMPORTS; A RELATIVELY SMALL PORTION OF TOTAL IMPORTS WILL BE AFFECTED BY THE HIGHER SURCHARGES/PRIOR DEPOSIT; UNEMPLOYMENT WOULD RISE IF IMPORTS WERE REDUCED SIGNIFICANTLY; SELECTIVE ADMINISTRATIVE LIMITATIONS HAD ALREADY BEEN IN EFFECT FOR DURABLE CONSUMER GOODS; AND THE RESTRICTIONS WILL LIKELY HAVE LITTLE OR NO POSITIVE EFFECT ON THE INVISIBLE AND CAPITAL ACCOUNTS. THUS THE GOP WILL PROBABLY BE FORCED BY EVENTS TO IMPOSE MORE BASIC REFORMS BY DECEMBER OR VERY EARLY 1977.

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THE DANGER IS THAT THE RECENTLY ANNOUNCED TEMPORARY MEASURES, RATHER THAN BEING DISCARDED, MAY TURN OUT TO BE THE INITIAL STEPS OF AN INCREASINGLY RESTRICTED SYSTEM. GOP OFFICIALS, CLAIMING THAT THEY ARE AWARE OF THIS DANGER, INSIST THEY WILL NOT PERMIT SUCH A DEVELOPMENT. THEIR PLANS, THEY STATE, ARE TO MOVE TOWARD A MORE OPEN AND LIBERAL STRUCTURE AS SOON AS THE DOMESTIC SITUATION PERMITS.

5. MOVEMENT TOWARD A CLOSED SYSTEM WOULD LIKELY AROUSE  
CONSIDERABLE OPPOSITION FROM PORTUGAL'S MAJOR  
TRADING PARTNERS. BRITISH EXPORTERS REPORTEDLY HAD  
BEEN GROWING QUITE CONCERNED BY THE AD HOC ADMINISTRA-  
TIVE CONTROLS OF THE PAST FEW MONTHS. THEY AND OTHER  
EUROPEAN TRADERS WOULD PROBABLY RESIST AN EVEN MORE  
RESTRICTIVE SYSTEM, PARTICULARLY AT A TIME WHEN  
PORTUGAL IS SEEKING ADDITIONAL COMMON MARKET CONCESSIONS  
AND TALKING ABOUT EVENTUAL MEMBERSHIP. THE UK EMBASSY  
HAS ASKED, INFORMALLY, WHETHER THE USG WOULD SUPPORT  
A UK OR EEC PROTEST AGAINST RESTRICTIVE MEASURES.  
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